

Message Text

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ACTION IO-14

INFO OCT-01 EUR-12 ISO-00 L-03 FRB-01 OMB-01 ITC-01
SP-02 AGRE-00 AID-05 CIAE-00 COME-00 EB-08 INR-10
LAB-04 NSAE-00 OIC-02 SIL-01 STR-07 TRSE-00
CEA-01 SS-15 JUSE-00 AF-10 ARA-14 EA-12 NEA-11
CTME-00 DODE-00 NSCE-00 SSO-00 ICAE-00 INRE-00
/135 W

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O 122151Z MAY 78

FM USMISSION USUN NEW YORK

TO SECSTATE WASHDC IMMEDIATE 1339

INFO USMISSION GENEVA PRIORITY

AMEMBASSY BRUSSELS PRIORITY

AMEMBASSY PARIS PRIORITY

UNCLAS SECTION 01 OF 03 USUN NEW YORK 01940

AMEMBASSY BRUSSELS FOR USEEC

AMEMBASSY PARIS FOR USOECD

E.O. 11652: N/A

TAGS: EFIN, ECON, UN

SUBJECT: RESUMED MEETING OF CONTACT GROUP, MAY 8

REF: USUN NEW YORK 1859

1. US (HORMATS) RESUMED DISCUSSION OF TRADE ISSUES BY
AGREEING WITH PEREZ-GUERRERO THAT ALL COUNTRIES SHARE
OBJECTIVE OF IMPROVING THE INTERNATIONAL TRADING SYSTEM.
HE EMPHASIZED DESIRE TO WORK WITH LDCS IN MTN. HE NOTED
THAT SOME DEVELOPING COUNTRIES, BECAUSE OF THEIR POLICIES
AND OTHER CIRCUMSTANCES, HAD BEEN HIGHLY SUCCESSFUL IN
INCREASING EXPORTS, ESPECIALLY OF MANUFACTURES, WHILE OTHERS
HAD NOT FARED AS WELL. THE US WAS AWARE OF IRRITATIONS
RELATING TO COUNTERVAILING DUTIES, SAFEGUARD ACTIONS, AND
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THE LIKE, BUT THESE HAD BEEN LIMITED AND WERE NOT DIRECTED
AT LDCS PER SE. IN FACT, THE OUTSTANDING CHARACTERISTIC OF
RECENT YEARS HAS BEEN THE ABILITY DEVELOPED COUNTRIES HAVE
TO KEEP MARKETS OPEN--COMPARED TO THE PERFORMANCE OF NATIONS
DURING THE 1930S, THIS WAS IMPRESSIVE AND SHOULD BE
RECOGNIZED AS IMPORTANT CONTRIBUTION TO GROWTH IN LDC TRADE.
HE STRESSED US COMMITMENT TO PRINCIPLE OF S&D, BUT

EMPHASIZED THAT MANY LDCS IN THEIR OWN INTERESTS SHOULD CONSIDER TAKING ON OBLIGATIONS IN THE MTN TO STRENGTHEN THEIR ROLE IN THE SYSTEM, WHICH IS BASED ON THE CONCEPT OF MUTUAL RIGHTS AND OBLIGATIONS. HORMATS POINTED OUT THAT BECAUSE MOST GSP BENEFITS GO TO A FEW COUNTRIES, WE FACE A PROBLEM; IT IS SAID THAT GSP HELPS ONLY THOSE WHO ARE DOING WELL, NOT THE POOR. S&D FACES SIMILAR CRITICISM. TO COUNTERACT THIS DIFFICULTY, IT IS IMPORTANT THAT THOSE DOING WELL ASSUME APPROPRIATE OBLIGATIONS THEMSELVES, SO THAT S&D CAN BE SUSTAINED FOR OTHERS. IF SEEN ONLY TO BENEFIT SUCCESSFUL LDC EXPORTERS, IT WILL BE DIFFICULT TO SUSTAIN.

2. SWITZERLAND EMPHASIZED UNITARY NATURE OF INTERNATIONAL TRADING SYSTEM UNDER GATT, BUT ENDORSED NEED FOR FLEXIBILITY TO TAKE ACCOUNT OF PROBLEMS OF COUNTRIES AT DIFFERING STAGES OF DEVELOPMENT. S&D WAS IMPORTANT BUT MARKET ACCESS SHOULD WORK IN BOTH DIRECTIONS. SUGGESTED DEVELOPED COUNTRIES COULD PROVIDE TECHNICAL ASSISTANCE FOR PROMOTING LDC EXPORTS.

3. AUSTRALIA STRESSED THAT VOLATILITY OF FOREIGN EXCHANGE EARNINGS FRUSTRATED DEVELOPMENT PLANS. THEREFORE SUPPORTED NEGOTIATION OF COMMODITY AGREEMENTS TO STABILIZE PRICES, WHICH WAS IN INTERESTS OF PRODUCERS AND CONSUMERS. AGREEMENTS SHOULD PROVIDE FOR PRICES THAT WERE BOTH REMUNERATIVE
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AND REASONABLE. IMPROVEMENTS IN THE TERMS OF TRADE SHOULD CONTINUE TO REST ON THE COMPARATIVE ADVANTAGE COUNTRIES HAVE IN PRODUCING FOR EXPORT (NOT ON OPERATION OF COMMODITY AGREEMENTS).

4. VENEZUELA (PEREZ-GUERRERO) STATED THAT SPECIAL AND DIFFERENTIAL TREATMENT (S&D) MEANT NON-RECIPROCITY, BUT COUNTRIES GAINING MORE FROM MTNS WERE FREE TO MAKE OFFERS IN THEIR OWN INTERESTS. MTNS SHOULD ASSIST ALL LDCS REACH THE STAGE WHERE THEY COULD BE SUCCESSFUL IN TRADE. WITHOUT NAMING US, P.G. EXPRESSED HOPE THAT DISCRIMINATORY APPLICATION OF GSP (OPEC EXCLUSION) COULD BE ELIMINATED.

5. MONETARY SYSTEM. SPEAKING FOR G-77 JAMAICA EMPHASIZED NEED FOR CLOSER RELATIONSHIP BETWEEN MONETARY SYSTEM AND DEVELOPMENT. CALLED FOR INCREASING LDCS' IMF QUOTAS, LONG-TERM FINANCING, GREATER EQUITY IN THE DISTRIBUTION OF LIQUIDITY, FURTHER DISTRIBUTION OF SDRS, AND MODERATING OF IMF CONDITIONALITY, WHICH LIMITED LDCS' ABILITY TO USE FUND RESOURCES. PRESENT MONETARY SYSTEM WAS NOT EQUITABLE. ONLY A FEW COUNTRIES BENEFIT FROM "SPONTANEOUS" EXPANSION OF LIQUIDITY, WHILE MOST COUNTRIES HAVE

INSUFFICIENT LIQUIDITY. ACCEPTED PRINCIPLE OF CONDITION-
ALITY, BUT CONDITIONS SHOULD BE IN LINE WITH "POLITICAL AND
ECONOMIC FACTS" IN LDCS. COMMITTEE SHOULD BRING PERCEPTIONS
OF NEEDS OF GLOBAL DEVELOPMENT INTO OPERATIONS OF IMF WHILE
PROTECTING THE INSTITUTION.

6. US (HORMATS) REPLIED THAT US SEES IMF AS PRIMARY
INSTITUTION FOR ASSISTING COUNTRIES IN OVERCOMING CURRENT
ACCOUNT DIFFICULTIES, AND AS INSTITUTION TO PROVIDE
DEVELOPMENT FINANCING. WE HAVE WORKED OVER TIME FOR IM-
PROVEMENT OF SYSTEM TO HELP EVEN OUT PEAKS AND TROUGHS AND
TO PROVIDE TEMPORARY FINANCING TO SUPPORT EFFORTS TO CORRECT
PAYMENTS DEFICITS. LIBERALIZATION OF CFF RULES IN 1975
MADE POSSIBLE ADDITIONAL SDR 2 BILLION DRAWINGS, 60 PERCENT
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OF WHICH BY LDCS. CONDITIONALITY WAS MUCH LESS FOR

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O 122151Z MAY 78

FM USMISSION USUN NEW YORK
TO SECSTATE WASHDC IMMEDIATE 1340
INFO USMISSION GENEVA PRIORITY
AMEMBASSY BRUSSELS PRIORITY
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UNCLAS SECTION 02 OF 03 USUN NEW YORK 01940

BORROWING FROM SPECIAL FACILITIES. WITTEVEEN FACILITY
WOULD ALLOW LONGER PERIOD FOR ADJUSTMENT THAN UNDER NORMAL
IMF PRACTICES. HORMATS INDICATED US SUPPORT FOR QUOTA

INCREASE BUT SAID WE HAD NO POSITION AS YET ON SIZE OF INCREASE. HE ASSURED LDCS THAT THEIR VIEWS WOULD BE HEARD, BUT POINTED OUT THAT THERE WOULD BE A PROBLEM WITH TOO LITTLE CONDITIONALITY. IF INTEGRITY OF STABILIZATION AGREEMENTS NOT MAINTAINED, ABILITY TO BORROW IN PRIVATE MARKETS AND IMF ITSELF WOULD BE UNDERMINED. CONDITIONALITY WAS NECESSARY TO ASSURE WISE USE OF IMF RESOURCES, TO MAKE CERTAIN PROBLEMS WERE SOLVED, AND TO UNDERPIN PRIVATE BORROWING.

7. HORMATS SAID US SUPPORTS IMPORTANT ROLE FOR SDR WHICH NOW ACCOUNTS FOR 3 PERCENT OF RESERVE ASSETS. HE NOTED CONCERNS THAT FURTHER DISTRIBUTION SHOULD NOT CONTRIBUTE TO EXCESSIVE LIQUIDITY AND DESIRES OF SOME FOR NEW ALLOCATION OF SDRS TO BREATHE NEW LIFE INTO THIS RESERVE ASSET, AND INDICATED US WORK WITH IMF COMMITTEES TO EXAMINE THIS UNCLASSIFIED

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ISSUE. IT WAS, HE OBSERVED, IN THE IMF CONTEXT WHERE SUCH JUDGMENTS WOULD BE MADE (I.E. NOT IN COW).

8. DENMARK (EC SPOKESMAN) SAID IMF ROLE CANNOT BE TO PROVIDE ODA. SUBSTITUTION OF IMF RESOURCES FOR ODA WOULD BE INFLATIONARY. ROLE OF IMF IS TO DECREASE UNCERTAINTY AND INCREASE THE SECURITY OF THE DEVELOPMENT PROCESS, BUT NOT TO PROVIDE DEVELOPMENT FINANCING. CONDITIONALITY, AS US SAID, WAS NECESSARY TO SUPPORT BORROWING FROM PRIVATE MARKETS. THE EC HAD SUPPORTED THE SEVERAL NEW FACILITIES. THE OIL PRICE INCREASES HAD CREATED STRUCTURAL ADJUSTMENT PROBLEMS FOR NON-OIL LDCS, WHICH OFTEN REQUIRED USE OF MEDIUM-TERM FINANCING. WITTEVEEN FACILITY WOULD BE HELPFUL IN THIS RESPECT.

9. THE EC SUPPORTED THE OBJECTIVE OF MAKING SDRS PRINCIPAL RESERVE ASSET AND WELCOMED INTERIM COMMITTEE DECISION TO RAISE INTEREST RATES ON SDRS.

10. JAMAICA (HALL) SAID OPERATION OF INTERNATIONAL MONETARY SYSTEM WORKED TO DISADVANTAGE OF LDCS GIVEN THE STRUCTURAL RIGIDITIES IN THEIR ECONOMIES. IMF ROLE IN FACILITATING ADJUSTMENT GEARED MORE TO DCS, WHICH CAN ADJUST IN RELATIVELY SHORT TIME. LDCS NEED MECHANISM TO PROVIDE LONG-TERM FINANCING WITHIN FRAMEWORK OF ADJUSTMENT PROCESS. G-77 SPOKESMAN DISAGREED WITH EC STATEMENT THAT SYSTEM OPERATES TO REDUCE UNCERTAINTY. REQUIRES SUBSTANTIAL REORGANIZATION TO ACHIEVE THIS. CALLED FOR DIFFERENTIAL TREATMENT FOR LDCS IN APPLICATION OF CONDITIONALITY, INCREASED PARTICIPATION OF LDCS IN DECISION-MAKING PROCESS, SO THEY CAN EXERT INFLUENCE TO ENSURE OPERATIONS WILL MEET LDC NEEDS, WELCOMED EC SUPPORT FOR SDR AS PRINCIPAL RE-

SERVE ASSET, AND NOTED ABSENCE OF COMMENT BY DCS ON LDC
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SDR-LINK PROPOSAL. LDCS WISHED NEW SDR ALLOCATION WITH
"EQUITABLE PROPORTION" GOING TO LDCS. ALSO CALLED FOR MORE
EQUITABLE SHARING OF GOLD SALE PROCEEDS.

11. SAUDI ARABIA IN OFF-BEAT INTERVENTION PROPOSED ADOPT-
TION OF COMMODITY BARTER SYSTEM TO OVERCOME INFLATION
PROBLEMS.

12. OTHER FLOWS. SWISS OPENED COMMENT ON TOPIC BY NOTING
THAT RECESSION HAD INCREASED LIQUIDITY OF CAPITAL MARKETS,
MAKING IT EASIER FOR LDCS TO BORROW. SWISS HAD IMPROVED
ACCESS TO THEIR MARKET FOR MDBS. HE SUPPORTED IDEA OF
TECHNICAL COOPERATION TO ASSIST LDC BORROWERS.

13. US (HORMATS) STATED CAPITAL MARKET REPRESENTS IMPOR-
TANT SOURCE OF RESOURCES FOR LDCS. LDCS HAVE GREATLY
INCREASED BORROWING AND PROVED CREDITWORTHY. MANY WERE
BORROWING WITH SMALL SPREADS OVER LIBOR. REITERATED US
WILLINGNESS TO COOPERATE WITH LDC BORROWERS, NOTING RECENT
INSTANCE WHERE NIGERIA ASSISTED. TERMS OF BORROWING WERE
MATTER BETWEEN LDC AND PRIVATE LENDERS, WITH WHICH USG
WOULD NOT AND COULD NOT INTERFERE. US WOULD BE WILLING,
HOWEVER, TO ASSIST LDC CONTACTS HERE. US MARKET, HE
EMPHASIZED, HAD NO SPECIAL RESTRICTIONS ON LDC ACCESS.

14. CANADA NOTED DIFFERENT BORROWING REQUIREMENTS AND
CAPACITIES OF LDCS AND POINTED OUT THAT CANADA WAS CAPITAL
IMPORTING COUNTRY. SAID THAT CANADA NOT IN POSITION TO
GIVE SPECIAL PREFERENCES TO LDC ACCESS OVER OWN LOCAL AND
PROVINCIAL GOVERNMENTS.

15. DENMARK (EC) POINTED OUT LDCS'ISSUES IN EUROPEAN
MARKET HAD INCREASED FROM LESS THAN \$100 MILLION 1970 TO
\$4 BILLION IN 1977. HOWEVER, LIBERALIZATION OF ACCESS
RULES,THOUGH NECESSARY, WAS NOT SUFFICIENT TO FOSTER
INCREASE IN BORROWING ON SOME NATIONAL MARKETS. NARROWNESS
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OF MARKETS, LACK OF KNOWLEDGE ON BOTH SIDES CREATED

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INFO USMISSION GENEVA PRIORITY

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DIFFICULTIES. MDB INTERMEDIATION WAS HELPFUL IN THIS
RESPECT. WORLD BANK COULD BORROW AT LOWER INTEREST RATES
THAN COULD BE OBTAINED DIRECTLY BY MAJORITY OF LDCS.

16. ECUADOR CALLED FOR FULL IMPLEMENTATION OF 1976
DEVELOPMENT COMMITTEE RECOMMENDATIONS ON CAPITAL MARKET
ACCESS. EMPHASIZED NEED FOR PREFERENTIAL TREATMENT IN
FAVOR OF LDCS. YOUNG

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING AGENDA, COMMITTEE MEETINGS, FINANCIAL CONTRIBUTIONS, PROGRAM COORDINATION
Control Number: n/a
Copy: SINGLE
Draft Date: 12 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978USUNN01940
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780203-0034
Format: TEL
From: USUN NEW YORK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780561/aaaacair.tel
Line Count: 316
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b71f969f-c288-dd11-92da-001cc4696bcc
Office: ACTION IO
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 USUN NEW YORK 1859
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2700410
Secure: OPEN
Status: NATIVE
Subject: RESUMED MEETING OF CONTACT GROUP, MAY 8
TAGS: EFIN, ECON, PORG, AFIN, UN
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/b71f969f-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014